



AUDITOR-GENERAL

The Municipal Manager
PO Box 71
GRAAFF-REINET
6280

54 279



20 December 2007

Reference: 60045REG06/07

Dear Mr Langboui

Report of the Auditor-General on the financial statements and performance information of Camdeboo Municipality for the year ended 30 June 2007

The above-mentioned report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)

In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year.

Until tabled as required by section 127(2) the report is **not a public document** and should therefore be treated as **confidential**.

As your municipality will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following:

- Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo and the authorised signature will be made available to you in electronic format.

Please notify the Provincial Auditor-General (Business Executive) as well as the Senior Manager: PEL1 well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.

Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in black ink, appearing to read 'Welch', enclosed within a large, loopy oval stroke.

.....
Manager: PEL1

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REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF THE CAMDEBOO MUNICIPALITY AND EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF CAMDEBOO MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Camdeboo Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages ... to

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)]. This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

Basis for qualified opinion

Debtors

9. Value Added Tax (VAT) refundable amounting to R890 688 in respect of the current and previous year's VAT claims arising from the VAT reconciliation undertaken during the year under review and received subsequent to 30 June 2007 from the South African Revenue Services has not been included as a receivable in the VAT control account as at 30 June 2007.
10. As a result the debtors and the accumulated surplus are understated by R890 688.

Interest revenue recognition

11. Interest on investments amounting to R706 103 was not accrued for at year end. Accounting policy note 1.3 of the municipality states that income is accrued when measurable and available through finance operations. This accounting policy was not adhered to resulting in the understatement of debtors and interest received at year end.

Unauthorised expenditure

12. The approved budget for certain operating and capital votes were exceeded by R1 720 621 and R305 294 respectively for the period under review.

In terms of the definitions in chapter 1 of the MFMA, the excess expenditure constitutes unauthorised expenditure and should be reported as such. The necessary disclosure as required by section 125(2)(d) of the MFMA has not been made in the annual financial statements.

Opinion

13. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Camdeboo Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the entity-specific basis of accounting described in accounting policy note 1 and in the manner required by the MFMA.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non-compliance with MFMA and MSA

14. During the year under review, the councillors were involved the awarding of tenders and appointment of staff in contravention of Chapter 11 of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Code of Conduct for Municipal Councillors as required per Section 54 and Schedule 1 of Municipal Systems Act 32 of 2000 (MSA). Furthermore, there is no evidence that all the councillors with business interests disclosed such interest per paragraph 5 and 7 of Schedule 1 of the MSA.

15. Certain suppliers were included in the database of service providers without having submitted the required tax clearance certificates, nor having completed the declaration that they do not have any relative working for the state as required by Supply Chain Management Regulations 44 and 45.
16. In certain instances quotations were not attached to the purchase order and the ordering function was not centralized with the register of quotations kept as required by paragraph 16(d) of the Supply Chain Management Regulations.

Internal control

17. Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies may exist in more than one internal control component.

| Reporting Item | Control | Assessment | Control | Assessment | Monitoring |
|-----------------------------------------------------|---------|------------|---------|------------|------------|
| Environment | Control | Assessment | Control | Assessment | Monitoring |
| Basis for qualification of opinion | | | | | |
| Understatement of VAT refundable | | | | | ✓ |
| Interest revenue recognition | | | | | ✓ |
| Unauthorised expenditure | | | | | ✓ |
| Other matters | | | | | |
| Non-compliance with applicable laws and regulations | ✓ | | ✓ | | |

Control environment

18. The municipality did not establish all key elements of a control environment to achieve sound control over the supply chain management and the Code of Conduct for Municipal Councillors. This resulted in instances where councillors were involved in awarding tenders and in the appointment of staff.

Control activities

19. The effectiveness of control activities over business and accountancy processes was not adequate. This is evident from the matters reported related to the non-compliance with the Supply Chain Management regulations.

Monitoring

20. The monitoring of controls was not effective in all instances. This contributed to the matters reported related to the understatement of VAT refundable, interest revenue not recognised, unauthorised expenditure, significant

uncertainty regarding ownership of assets and the material inconsistency of other information.

Unaudited supplementary schedules

21. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

22. I was engaged to audit the performance information.

Responsibility of the accounting officer for performance information

23. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

24. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.
25. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

27. Performance information not prepared

The municipality does not have a performance management system as required by section 26(1) of the MSA. As a result an assessment of the municipality's performance against any measurable performance objectives was not prepared as required by section 46 of the MSA and as required by section 12(3)(c) of the MFMA.

28. Measurable objectives not consistent

The development priorities and objectives per the IDP are not clearly linked to the budget and are not clearly measurable.

APPRECIATION

29. The assistance rendered by the staff of the Camdeboo Municipality during the audit is sincerely appreciated.

Auditor-General

Port Elizabeth

30 November 2007



AUDITOR-GENERAL